

# **Welcoming Remarks by the Minister of Finance on the Occasion Occasion of the Timor-Leste Development Partners Meeting 2022**

**By Ministro das Finanças, Rui Augusto Gomes**

**Dili, 10 June 2022**

*Excelências*

*Senhor Presidente da República Democrática de Timor-Leste, Dr. José Ramos-Horta,  
Senhor Presidente do Parlamento Nacional, Dr. Aniceto Guterres,  
Senhor Primeiro-Ministro, General Taur Matan Ruak,  
Senhor Presidente do Tribunal de Recursos, Meritíssimo Juiz Deolindo dos Santos,  
Senhora Vice-Primeira Ministra, Dra. Berta dos Santos,  
Membros do Oitavo Governo Constitucional,  
Honourable Ambassadors,  
The UN Resident Coordinator, Heads of UN Agencies, Chiefs of Missions, Country Directors,  
Charge D'Affaires,  
Representatives of the Civil Society, Religious Representatives, Academics, Private Sector,  
and the Media,  
Ladies and Gentlemen*

Good morning and welcome to the Ministry of Finance!

I am more than honored to stand here today, as co-Chair, and welcome you all to this high-level Timor-Leste Development Partner's Meeting, marking the 20th anniversary of the Restoration of our Independence.

I would like very respectfully to greet the presence of the President of the Republic, Dr. José Ramos-Horta and express my gratitude for his presence, which testifies to the importance that the high authorities of the Democratic Republic of Timor-Leste attach to this Meeting.

To the Ambassadors and Members of the Diplomatic Corps, I wish to express our gratitude for being always with us throughout the process of our nation-building.

Ladies and Gentlemen

We gather here today around a very important theme: **"Together We Work to Recover the Economy towards a Resilient Society"**.

Indeed, it is a very important theme as Timor-Leste has gone through troubled times causing negative impacts on the economy. The prolonged political impasse, the twin shocks of Covid-19 and the April Floods combined have exposed our vulnerabilities.

As we began to register positive growth rates in 2021 and this year, the whole World is again thrown into great uncertainty due to the Russian invasion of Ukraine in February. The commodity markets have been affected badly with rising energy and food prices, a situation that may prolong throughout this year and beyond. As the conflict does not seem to come to an end, food and fuel prices continue to increase.

Our year-on-year inflation in March 2022 was 7% and globally, inflation is forecasted to increase by 6.7% in 2022.

As a country relying on oil and natural gas revenues, we enjoy the increase in oil and gas prices. But, at the same time, we are deeply affected by the increase of other commodity prices, because many of our goods are produced overseas, including rice, with import accounting for nearly

40% of the rice consumed in Timor-Leste. The prices of cooking oil have also doubled in April in Timor-Leste due to supply disruptions of that commodity, with about 60% of world sunflower oil production coming from Ukraine and Russia.

Ladies and Gentlemen

Timor-Leste does have financial resources to overcome limited shocks that are transmitted through the global commodity market.

On that note the Government recently approved a fuel subsidy for road, air and maritime transport operators and for agricultural and fishing activities.

In the State Budget revision published a few weeks ago, we approved a one-off universal family subsidy of \$200 per household to be paid in the second half of the year that will help families weather inflation, we expanded the monthly social protection payments for expectant mothers and children (Bolsa da Mãe Jersaun Foun), we increased the support for housing improvements, we expanded scholarships for all levels of education and raised agriculture subsidies to promote national production and reduce the reliance on imports.

However, from a fiscal sustainability analysis, there is a clear limit to this fiscal space to continue to finance the State's economic activities. Our fiscal deficit may no longer be able to be supported by the Petroleum Fund. The fiscal cliff will be a reality in a decade from now.

So, alternative sources of funding the State Budget will have to be found quickly, in order to prolong the longevity of the Petroleum Fund for the benefit of future generations, but also our economic model has to be able to depend less on increasing public expenditure and start benefiting from a strong private sector.

We also have to begin to identify and develop alternative sources of principal commodities other than rice and cooking oil in anticipation of supply chain disruptions in the future. Our diet will have to change. Our production and productivity must be improved. The private sector needs to be more active in the food industry. The list goes on. And together we can achieve them.

Ladies and Gentlemen

We are in the middle of the budget process for the fiscal year of 2023.

Just last week, the National Parliament approved the Law on Grand Planning Options for 2023.

The Law defines the main policies that will be the base for the budget programs for 2023, and introduces the multi-annual budget framework for 2023 to 2027.

The Law on Grand Planning Options for 2023, the first time Timor-Leste approves such a law, consists of about 260 policies within 16 strategic areas, such as, agriculture, environment, petroleum and minerals, electricity and renewable energy, national connectivity, water and sanitation, education and training, health, inclusiveness and social protection, culture and patrimony, state reform, defence and national security, and international relation.

The Law establishes specific actions to be financed by the State Budget, which will allow for a better allocation of resources, as well as better monitoring of the Government's activities.

The annual Law on Grand Planning Options, along with program budgeting implemented since 2020, will allow us to move from a perspective centred on the execution rate of budget items to a perspective oriented towards the implementation rate of specific measures.

The success of the Government's actions and of the use of the resources of the annual State Budget will be much easier to measure.

The Law on Grand Planning Options concluded the first phase of the 2023 budget process, and will now move to the second phase, that will culminate in the presentation of the State General Budget on the 1st of October.

Our very presence here today, in the annual Timor-Leste Development Partners Meeting (TLDPM), is part of the budget process that will then be followed by the Jornada Orçamental by the end of this month.

An important milestone we have had this year was the publication of the new PFM law, the foundation of the PFM reform.

The new PFM law revolutionizes the budget process and the public finance management, bringing it to par with the best international practices while adapting them to our specific circumstances.

The new PFM law establishes a two-phased budget process, the first phase, which happens in the spring semester, devoted to planning, with the approval of the annual plans of the Ministries and Autonomous Agencies and is followed by the approval of the annual Law on Grand Planning Options that defines the main specific policies the Government wants to implement in the next year, and approves the mid-term budget framework which defines the Annual Budget ceiling for the next 5 years, with the ceiling for the first year being mandatory for the Government in the drafting of the State Budget for 2023.

The second phase of the budget process, which happens in the fall semester, is devoted to budgeting, and within the individual ceilings approved by the Government following the Jornada Orçamental. Being limited by the global ceiling set in the Law on Grand Planning Options, each Ministry and Autonomous Agency should prepare its budget proposal taking into account the policies defined in that same Law.

The new process will, hopefully achieve two goals: On one hand, it will shift the debate from a discussion just about the size of budget allocations, to a discussion first about the policies which will be implemented annually and then about the what percentage of the budget which will be allocated to each policy; and on the other hand, it will insulate the definition of the Annual Budget ceiling from the political bargaining that occurs during the preparation of the individual budget proposals by the Ministries and Autonomous Agencies by setting it up at the beginning of the budget process and basing it on the annual fiscal capacity of the Government determined by the expected revenues.

This will, we hope, constrain the political pressures to increase the withdrawals from the Petroleum Fund and preserve it for the future generations. It will also promote the assessment of government action, not by reference to the size of the expenditure incurred, but by reference to the execution of specific policies.

At the same time we are taking gradual steps to address the challenges of revenue mobilization.

Taking into account the recommendations of our Development Partners we have approved increases on the taxes on alcohol and tobacco in 2020, 2021 and 2022, to bring us in line with international tax rates on these products.

We will also present on the State Budget for 2023 a tax increase on sugar and sugary drinks and on car sales, which will increase tax collection as well as help curb public health issues and address climate change.

At the same time we are advancing with the tax reform.

Before the end of the year we will present the new tax law, which will streamline the existing taxes, expand the tax base, implement progressive tax rates and increase the tax rate for high earners.

We will also present a new tax procedure code that will empower the Tax Administration with the tools and resources to combat tax fraud and evasion, while establishing a clear review procedure.

We are also taking the steps to implement Value Added Tax in Timor-Leste, with a draft law expected to be presented in 2023.

In relation to the Petroleum Fund we are determined to take the necessary action to preserve it for future generations.

As the Government made it clear on the Law on Grand Planning Options for 2023, Timor-Leste faces a fiscal cliff in 2035 if our policy of excessive withdrawals is not reversed.

With that in mind, the mid-term budget framework included in the Law on Grand Planning Options for 2023 establishes an actual reduction of the State Budget ceiling for 2023 as well as 2024 in relation to the 2022 State Budget, and from 2025 onwards it caps the increase of the ceiling to the expected inflation.

We also have implemented in 2021 a Segmentation of the Petroleum Fund, creating an investment portfolio, to insulate from the short-term annual withdrawals, and a liquidity portfolio to fund the expected withdrawals for three years, which we hope will mitigate some of the risks to the Fund.

Beyond PFM, we have approved a new Procurement and Public Contract Law that will take effect in the beginning of 2023, that will facilitate public procurement, improve planning and transparency and hopefully start the transition to e-procurement with all the entailing benefits.

Although we still have much work to do, we have taken decisive steps in the reform in the last two years, which have placed Timor-Leste at an above average position on the Comparison of PFM quality to GDP per capita. This is the same footing as countries such as Vietnam, Nepal, Kazakhstan, etc, according to the IMF and World Bank recent evaluation.

We are finalizing our new PFM Reform Strategy, a streamlined document with a clear rationale for reform, clear goals, outcomes and actions and a clear work plan, timetable and distribution of responsibilities.

Today's discussions will be taken into account in the final document.

Ladies and Gentlemen

One of the topics for today is Climate Adaptation in Timor-Leste. The issue of climate change is existential and it cannot be delayed no longer.

Even as a small country with a small carbon footprint, we have to do our part, because the impacts of climate change are felt by all countries, namely drought, flood, and other climate-induced natural disasters.

Last year we were struck by the April landfall of cyclone Seroja, resulting in the destruction of public infrastructure, the displacement of thousands of vulnerable people, and the death of more than 40 of our citizens.

The impacts of climate-induced natural disasters can also lead to food insecurity, further threatening the already existing vulnerability of our people, given the number of malnourished children, despite the downward trend.

With that in mind, the nutrition of our population and food security in face of supply chain disruptions will also be discussed in today's meeting.

Ladies and Gentlemen

Today's agenda is a full one. We will first have the honor of receiving opening remarks from the Prime Minister, His Excellency General Taur Matan Ruak.

Following the official opening of this Meeting, we will have our keynote speaker for the day, H.E. Dr. José Ramos-Horta, President of the Democratic Republic of Timor-Leste.

The morning presentation will be delivered by His Excellency Mr. Antonio Freitas, Vice Minister of Finance who will update us on the PFM Reform.

This will be followed by a presentation on Climate Change Adaptation in Timor-Leste by His Excellency Mr. Demétrio do Amaral de Carvalho, Secretary of State for the Environment, in collaboration with UNDP and Mercy Corps.

The following presentation will be delivered by Mr. Jacinto Paijo, Director General of CLN, in collaboration with WFP on Securing Livelihood in Times of Global Supply Chain Uncertainty.

The afternoon session will provide audience members with vital information directly related to the Nutrition Assessment by Dr. Odete Viegas, Director General for Health Services, Ministry of Health, in collaboration with UNICEF.

This year's TLDPM will conclude with what we hope to be a productive and fruitful roundtable discussion where insights, reflections, and pertinent information will be shared. Before the closing of today's Meeting, we will have a joint statement between the Government of the Democratic Republic of Timor-Leste and Development Partners. I look forward to constructive deliberations today.

With these remarks, I now invite His Excellency the Prime-Minister, General Taur Matan Ruak to deliver his speech and to officially open the 2022 Timor-Leste Development Partners' Meeting.

Thank you. \*\*\*